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FISCAL IMPACT STATEMENT

LS 6978 **NOTE PREPARED:** Jan 8, 2011
BILL NUMBER: HB 1219 **BILL AMENDED:**

SUBJECT: Assessment of Real Property.

FIRST AUTHOR: Rep. Culver **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: This bill provides that the assessed value of property determined in an appraisal submitted by a taxpayer may be substituted for the assessed value determined by any other method. It limits for four years the amount that the assessed value of property can increase after the assessed value is determined in an appeal.

Effective Date: Upon passage.

Explanation of State Expenditures: The bill authorizes the Department of Local Government Finance (DLGF) to revoke the license of an appraiser who submits a fraudulent assessment of a taxpayer's property to the board of appeals. The impact on the agency would be negligible.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: Under current law, a taxpayer may obtain a review of the assessment of the taxpayer's tangible property by the county board of appeals. For taxes payable in 2012 and after, this bill stipulates that during the review a taxpayer is permitted to substitute a private appraisal of the taxpayer's property for the current assessed value of the property. Additionally, in each of the next four years, the taxing unit may not increase the substituted assessed value of the property by more than the increase in true tax value of the property, or the percentage increase in gross rent generated by the property (if the assessed value in the appeal was determined by the gross rent multiplier method), or three (3) percent, whichever is the least. If the gross rent generated actually decreased in the current year from the preceding year, the percentage increase under the gross rent multiplier method is assumed to be zero.

Under this bill, the number of requests for appeals is likely to increase. The fiscal impact of this proposal would depend on whether appraisals of property performed by private appraisers result in assessed values that are lower than those of the township or county assessor (it is highly unlikely that a taxpayer would submit an appraisal that is higher than the assessed value computed by the county or township assessor).

There are two potential fiscal impacts: (1) Short-term impact; (2) Long-term impact. There is also the impact of the property tax cap (i.e. circuit breaker) that may have an effect in both the short and long term.

1. *Short-Term Impact:* If the lower substituted assessment occurs before assessed values (AVs) are certified and tax rates are set, and assuming that there is no impact from property tax caps, local revenues will not be affected, although tax rates may have to be increased to cover the potential shortfall caused by the reduction in AV.

If, however, AVs have been certified and tax rates are set for the calendar year, a successful appeal leading to a reduction in AV would result in a reduction of property tax revenues for those taxing units where the property in question is located. To cover any potential refunds due, county auditors may reduce the certified AV by the amount needed (up to 2% of total AV) to absorb the effects expected to result from successful appeals.

2. *Long-Term Impact*: A successful appeal, leading to a lower AV over the next four years than would have occurred if the taxpayer had not filed the appeal, is equivalent to a tax deduction during this period. This reduction in the tax base would result in a tax shift to all other property in the form of an increased tax rate. The amount of the tax shift and the size of the increase in the tax rate is indeterminable.

3. *Circuit Breaker Impact:* The short- and long-term impacts may be exacerbated by the circuit breaker property tax caps. The combination of a reduction in assessed values and an increase in the tax rate makes it likely that the property taxes of more taxpayers would be above the applicable tax cap. This would potentially increase the amount of circuit breaker credits. As a result, total local revenues would probably decrease. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

Effect on Local Homestead Credits: A number of counties currently provide local homestead credits. Some homestead credits are paid with proceeds from a combination of County Option Income Taxes (COIT) and County Economic Development Income Taxes (CEDIT). Under this proposal local homestead credits could decrease. COIT proceeds that are not used for county homestead credits are distributed to civil taxing units as certified shares. CEDIT proceeds that are the result of the additional rate allowed for homestead credits may only be used for homestead credits. Forty-three counties currently provide CEDIT-funded homestead credits, and 10 counties provide COIT-funded homestead credits.

State Agencies Affected: DLGF.

Local Agencies Affected: Counties; Property Tax Assessment Board of Appeals.

Information Sources:

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